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International

**ANNUAL
REPORT
1979**

**MTS
International Services Incorporated**

MTS International Services Incorporated

and subsidiary companies

HEAD OFFICE

153 Bridgeland Avenue, Unit 1,
Toronto, Ontario. M6A 2Y6

DIRECTORS

D. J. RICCI - Chairman
R. E. DALE, Q.C.
M. PETERS
J. E. McCUTCHEON
A. STEVENSON

OFFICERS

D. J. RICCI - President, Chairman of the Board
R. E. DALE, Q.C. - Secretary

AUDITORS

MacGillivray & Co.
390 Bay Street, Suite 2400
Toronto, Ontario
M5H 2R6

BANKER

Bank of Montreal
700 University Avenue
Toronto, Ontario
M5G 1Z5

COUNSEL

Woolley, Dale and Dingwall
Toronto-Dominion Centre
Box 65, Suite 3205
Toronto, Ontario
M5K 1E7

TRANSFER AGENT

Crown Trust Company
302 Bay Street
Toronto, Ontario
M5H 2P4

STOCK LISTING—Toronto Stock Exchange—Symbol M.I.S.

MTS International Services Incorporated

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REPORT TO SHAREHOLDERS

During the fiscal year ended July 1979, revenues decreased by 23%. Contributing factors were a marked reduction in demand for our services in the North American market and the sale of the South African subsidiary. As a result of such sale only the revenues from South Africa for the first five months were included in the consolidated revenue figures. Earnings suffered accordingly and a large loss in the French subsidiary added to the deficit.

The cash position of the Company was improved by approximately \$300,000 and, subsequent to year end, was further improved by \$250,000 as a result of the sale of the North American subsidiaries. The sale of the French subsidiary will provide an additional \$100,000 in cash over a period of two years.

The results for this year are a reflection of Management's decision to redirect the interests of the Company toward other endeavours in order to provide Shareholders with a more favourable and stable investment with long-term potential growth. As of this date, all subsidiaries have been sold and cash receipts from these sales have been invested in short-term, income bearing investments.

After careful consideration Management concluded that the communications industry was an area that displayed a great potential for providing equity growth. Management's search for investment in this area has culminated in a share exchange agreement being entered into with the Shareholders of Huron Broadcasting Limited.

Huron Broadcasting Limited currently owns and operates two television stations and a cable television system in Sault Ste. Marie as well as six radio stations located in Northern Ontario. Huron's management team is experienced and knowledgeable and their aggressive, expansion-minded attitude will no doubt ensure continued growth. The completion of the share exchange agreement is subject to several conditions, some of which require the approval of the Shareholders of M.T.S. Complete details of the entire matter will be placed before the M.T.S. Shareholders. We are very pleased with the prospective agreement and are confident that this redirection of our Company's assets will provide the Shareholders an opportunity to benefit from the growth potential of Huron.

D. J. Ricci
Chairman

MTS International Services Incorporated

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CONSOLIDATED BALANCE SHEET

as at July 31, 1979

ASSETS

	<u>1979</u>	<u>1978</u>
CURRENT		
Cash	\$ 497,037	\$ 200,137
Accounts receivable	510,955	1,165,121
Income taxes recoverable	4,883	-
Prepaid expenses	10,292	28,287
	<u>1,023,167</u>	<u>1,393,545</u>
FIXED ASSETS	6,432	14,484
GOODWILL	<u>105,000</u>	<u>144,000</u>
	<u>\$1,134,599</u>	<u>\$1,552,029</u>

LIABILITIES

CURRENT		
Accounts payable and accrued liabilities	\$ 305,940	\$ 671,114
Income taxes	-	34,365
	<u>305,940</u>	<u>705,479</u>

SHAREHOLDERS' EQUITY

CAPITAL STOCK		
Authorized		
3,000,000 common shares, without par value		
Issued and fully paid		
2,059,734 common shares (1978 - 2,083,384 shares)	681,357	685,377
RETAINED EARNINGS	<u>147,302</u>	<u>161,173</u>
	<u>828,659</u>	<u>846,550</u>
	<u>\$1,134,599</u>	<u>\$1,552,029</u>

ON BEHALF OF THE BOARD

"D. J. Ricci"

Director

"R. E. Dale"

Director

MTS International Services Incorporated

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CONSOLIDATED STATEMENT OF LOSS AND RETAINED EARNINGS for the year ended — July 31, 1979

	<u>1979</u>	<u>1978</u>
REVENUE FROM SERVICES	\$5,409,511	\$7,027,957
OPERATING COSTS	<u>5,361,966</u>	<u>6,770,606</u>
Operating income	47,545	257,351
Provision for income taxes	<u>42,104</u>	<u>105,000</u>
EARNINGS BEFORE EXTRAORDINARY ITEMS	5,441	152,351
Extraordinary items (Note 2)	(<u>19,312</u>)	<u>137,356</u>
NET EARNINGS (LOSS)	(13,871)	289,707
RETAINED EARNINGS (DEFICIT), beginning of year	<u>161,173</u>	(<u>128,534</u>)
RETAINED EARNINGS, end of year	<u>\$ 147,302</u>	<u>\$ 161,173</u>
EARNINGS PER SHARE		
Average number of shares outstanding	2,071,559	2,083,384
Earnings before extraordinary items	0.3¢	7.3¢
Net earnings (loss)	(0.67¢)	13.9¢

MTS International Services Incorporated

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CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended — July 31, 1979

	<u>1979</u>	<u>1978</u>
WORKING CAPITAL DERIVED FROM		
Operations		
Earnings before extraordinary items	\$ 5,441	\$152,351
Expenses not requiring an outlay of funds		
Amortization of goodwill	39,000	12,000
Depreciation	<u>2,533</u>	<u>3,912</u>
	<u>46,974</u>	<u>168,263</u>
Reduction of income taxes arising from carry forward of prior years losses	13,000	89,356
Disposition of liabilities of former subsidiary	<u>-</u>	<u>48,000</u>
	<u>13,000</u>	<u>137,356</u>
	<u>59,974</u>	<u>305,619</u>
WORKING CAPITAL APPLIED TO		
Disposal of foreign subsidiary		
Proceeds	213,109	-
Less working capital disposed of	<u>239,600</u>	<u>-</u>
	26,491	-
Purchase of fixed assets	302	1,546
Redemption of share capital	<u>4,020</u>	<u>-</u>
	<u>30,813</u>	<u>1,546</u>
INCREASE IN WORKING CAPITAL	29,161	304,073
Working capital, beginning of year	<u>688,066</u>	<u>383,993</u>
WORKING CAPITAL, END OF YEAR	<u>\$717,227</u>	<u>\$688,066</u>

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COMPARATIVE HIGHLIGHTS

	<u>1979</u>	<u>1978</u>	<u>1977</u>	<u>1976</u>	<u>1975</u>
Revenue from services	\$5,409,511	\$7,027,957	\$5,791,519	\$6,508,526	\$8,570,283
Earnings (loss) before extraordinary items	\$ 5,441	\$ 152,351	(\$ 9,817)	(\$ 242,760)	\$ 109,595
- per share	0.3 ¢	7.3¢	(0.5¢)	(12¢)	5¢
Net earnings (loss)	(\$ 13,871)	\$ 289,707	(\$ 9,817)	(\$ 265,068)	\$ 104,872
- per share	(0.67¢)	13.9¢	(0.5¢)	(13¢)	5¢
Working capital (deficit)	\$ 717,227	\$ 688,066	\$ 383,993	\$ 352,425	\$ 509,896
- per share	34.82¢	33.0¢	18.4¢	16.9¢	24.5¢
Average number of shares outstanding	2,071,559	2,083,384	2,083,384	2,083,384	2,083,384

MTS International Services Incorporated

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

as at July 31, 1979

NOTE 1: SUMMARY OF ACCOUNTING POLICIES

- (a) The consolidated financial statements include the accounts of MTS International Services Incorporated and all subsidiary companies.
- (b) Foreign currencies have been translated to Canadian Funds on the basis that balance sheet historic items have been translated at historic rates. All other items have been translated at year end rates. Unrealized exchange gains of \$24,370 are reflected in the Consolidated Statement of Loss (1978 - \$20,034).
- (c) No provision has been recorded for withholding taxes which amount to approximately \$19,000 on undistributed earnings of foreign subsidiaries.
- (d) The Company follows the policy of amortizing goodwill over 15 years at the rate of \$12,000 per annum. In 1979, an additional \$27,000 was written off to reflect a decline in the value of goodwill and the accumulated amortization is \$75,000 (1978 - \$36,000).

NOTE 2: EXTRAORDINARY ITEMS

	<u>1979</u>	<u>1978</u>
Reduction of income taxes arising from carry forward of prior years' losses	\$ 13,000	\$ 89,356
Adjustment to reflect the final disposition of liabilities of a former foreign subsidiary	-	48,000
Loss on sale of foreign subsidiary	<u>(32,312)</u>	<u>-</u>
	<u><u>\$(19,312)</u></u>	<u><u>\$137,356</u></u>

NOTE 3: INCOME TAXES

In certain subsidiary companies losses of \$160,000 expiring in 1981 and 1982, remain deductible in determining income taxes payable in future years. The tax benefit which is dependent on the future profitability of these companies will be reflected in earnings when realized.

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NOTE 4: STATUTORY INFORMATION

The aggregate direct remuneration of the directors and senior officers of the Company as defined by The Business Corporations Act (Ontario) is as follows:

	1979	1978
Directors' fees	\$ 9,000	\$ 3,300
Senior officers' remuneration	154,552	194,404
	<u>\$163,552</u>	<u>\$197,704</u>

NOTE 5: SALE OF SUBSIDIARY

The company sold Modern Technical Services (South Africa)(Proprietary) Limited in January, 1979 for the total consideration of \$213,109.

NOTE 6: SUBSEQUENT EVENTS

(a) North America

The company entered into an agreement to sell its operations and net operating assets at their net book values for cash.

(b) Foreign

The company entered into an agreement to sell all of the shares of its French subsidiary for a cash consideration of \$14,012 (FF 49,900) and the payment to the parent company of about \$108,000 (FF 473,400).

The agreement provides for an initial payment of about \$31,000 to be made October 15, 1979 and the balance of the amount to be paid over a two year period.

(c) Share Exchange Agreement

The company has entered into an agreement to acquire all the issued and outstanding shares of Huron Broadcasting Limited (Huron). Consideration for this acquisition will be the issuance to the Huron shareholders of 1,050,000 Class A shares and 4,920,000 Class B shares of the company. In order to fulfill the agreement it is proposed that the capitalization of the company be changed to include both types of shares and the existing outstanding Common shares will become Class B shares. The agreement is subject to several conditions including: the obtaining of Articles of Amendment by the company, the approval of the transaction by the shareholders of the company, and the approval of the transaction by the Canadian Radio - Television and Telecommunications Commission.

MTS International Services Incorporated

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AUDITORS' REPORT

To the Shareholders of

MTS International Services Incorporated
and subsidiary companies:

We have examined the consolidated balance sheet of MTS International Services Incorporated as at July 31, 1979 and the consolidated statements of loss and retained earnings and changes in financial position for the year then ended. Our examination of the financial statements of MTS International Services Incorporated and those subsidiaries of which we are the auditors was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the Company as at July 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

MacGILLIVRAY & Co.
Chartered Accountants

Toronto, Ontario.
October 1, 1979
(except as to Note
6 for which the
date is January
9, 1980)



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